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Social Security

The age at which you decide to draw on Social Security can impact your financial future. Here are answers to some of the basic questions you may have about Social Security.

When can I begin receiving Social Security?

Social Security retirement benefits are available to qualified workers at age 62, but you can start benefits at any time from age 62 up to your 70th birthday. However, if you elect to collect benefits before your “full retirement age” (see table at right), the amount of your monthly benefit is reduced. Qualified workers are defined as those who have earned at least 40 credits, representing at least ten years of paid work and contributions to the Social Security system. In 2016, \$1,260 in covered earnings equals one credit. You can earn up to four credits per year. A spouse who has no earned income may also qualify to receive benefits (more on page 2).

At what age can I receive my “full” retirement benefit?

You can receive the full benefit, also referred to as your primary insurance amount (not the same as your maximum benefit), at your “full retirement age.” For decades, beneficiaries reached full retirement age

DETERMINE YOUR “FULL RETIREMENT AGE”

| YEAR OF BIRTH | | FULL RETIREMENT AGE |
|----------------|---|---------------------|
| 1943–1954 | > | 66 |
| 1955 | > | 66 and 2 months |
| 1956 | > | 66 and 4 months |
| 1957 | > | 66 and 6 months |
| 1958 | > | 66 and 8 months |
| 1959 | > | 66 and 10 months |
| 1960 and later | > | 67 |

Source: The United States Social Security Administration

at 65, but now it depends on the year of your birth and can be anywhere from age 66 to 67. The table above lists full retirement age by year of birth.

How is the amount of my Social Security benefit determined?

Benefits are based on your actual lifetime earnings. Some factors that can alter the amount of the benefit include:

- Receiving benefits before full retirement age
- Cost-of-living increases
- Delaying retirement past full retirement age

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There is no “best age” to start collecting benefits. Understanding your options and the economic tradeoffs can help you make an appropriate decision based upon your unique situation.

If you do not have enough lifetime earnings to qualify for Social Security or did not pay Social Security taxes through employment, you may not be eligible to receive Social Security benefits (except for a spousal benefit). By logging into the Social Security website (www.ssa.gov), you can obtain your estimated benefit amount.

How do I determine when is the right time to begin collecting benefits?

There are many factors to consider; we believe that the most difficult consideration can be estimating how long you or your spouse might live. If you reasonably expect to live well into your 80s or beyond, you can earn more benefits over time if you wait to begin collecting Social Security. This may require you to make some financial sacrifices in earlier years or may require you to continue working in order to compensate for the delay in receiving benefits.

If the benefits aren't critical to your monthly budget, waiting until age 70 to start drawing benefits will maximize your monthly amount. Between your full retirement age and age 70, you earn an 8 percent credit for each year collection is delayed. Another consideration is that a surviving spouse will also gain from the higher checks throughout his or her lifetime. Talk with a financial professional to determine a plan based on your goals and needs in retirement.

What is the potential financial impact of collecting benefits earlier than my full retirement age?

Generally, the longer you wait to collect Social Security, the larger the benefits may be for the rest of your life. Collecting benefits earlier than “full retirement age” comes at a cost, as you could receive as little as 75 percent of the benefit you would collect a few years later. For example, if you qualify for a \$1,000 monthly benefit (at your full retirement age of 66), that benefit would be just \$750 if you began collecting at age

62, but it rises to \$1,320 if you wait until age 70 to first claim Social Security. Your initial benefits don't increase after you reach age 70, so there is no additional reason to wait beyond your 70th birthday to begin receiving benefits.

What about a spouse who does not work outside the home? Do they still qualify for benefits?

If you are married, you are eligible to claim a spousal benefit that is one-half of the benefit earned by your spouse. Alternatively, if you have earned income in the past, you can qualify for your own benefit, which may be higher or lower than the spousal benefit.

Should you decide to claim a spousal benefit, you need to consider the timing. The maximum spousal benefit becomes available when you reach age 66, or your full retirement age, when the amount available to a spouse is one-half of the worker's primary insurance amount. If you choose to receive spousal benefits earlier, those benefits will be reduced. There's no advantage for you to wait beyond your own full retirement age to collect spousal benefits.

Do I have to stop working if I start receiving benefits?

You can work while earning Social Security benefits, but there are some issues to consider. Prior to reaching your full retirement age, there are limits as to how much income you can earn before your benefits are reduced. This is an important issue to keep in mind if you or your spouse expect to continue working past age 62. Once you reach full retirement age, there are no limits on how much income you can earn. Social Security benefits will not be reduced regardless of your earnings (see table at top of page 3).

Will my Social Security benefits be subject to tax?

It depends on your total income from all sources in years when you collect Social Security benefits. Rather than using taxable income, this calculation is based on your modified adjusted gross income or provisional income, which adds back your tax-exempt income plus half of your Social Security benefit (see table at bottom of page 3). If your income does not reach a taxable amount based on your filing status

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HOW WORKING CAN AFFECT YOUR SOCIAL SECURITY BENEFITS

| AGE | INCOME LIMITS (in 2016) | POTENTIAL BENEFIT REDUCTION |
|--|-------------------------|--|
| Prior to year full retirement is reached | \$15,720 | \$1 reduction in benefits for every \$2 earned over the income limit |
| Year in which full retirement is reached | \$41,880 | \$1 reduction in benefits for every \$3 earned over the income limit until month in which full retirement age is reached |
| Full retirement age | No earnings limit | None |

Source: Social Security Administration

(i.e., single, married filing a joint return, etc.) your Social Security benefits may not be subject to tax. However, if your income is above that amount, at least 50 percent of the benefits you receive, and potentially as much as 85 percent, may be considered taxable income subject to federal income taxes. Please consult with your tax professional.

If I am divorced, can I still qualify for a spousal benefit?

Yes, you can still qualify for one-half of the ex-spouse's benefit if you were married to that spouse for at least ten years and you are not currently married. Your ex-spouse must be at least age 62 and eligible for Social Security benefits, but they don't need to have filed, in order for you to file for spousal benefits. There is an exception if you are a divorced spouse who is disabled, or who is caring for a child under age 16. In these circumstances, you as a divorced spouse can still receive benefits based on the earnings record of a former spouse regardless of how long the two of you were married.

When you apply for spousal benefits based on the earnings of an ex-spouse, he or she is not notified of your filing to protect confidentiality. Your claims for a spousal benefit will have no impact on your ex-spouse's own Social Security benefits.

Are benefits paid to survivors if I should die?¹

A surviving spouse can begin receiving benefits as early as age 60, or as early as age 50 if he or she is disabled. Benefits are provided to any surviving spouse (even a divorced spouse if the marriage lasted at least ten years) if the surviving spouse is disabled, or caring for a child younger than 16. Benefits are available as follows:

- A widow or widower who has reached full retirement age or older will receive 100% of the deceased worker's benefit amount;
- A widow or widower, between age 60 and full retirement age will receive 71.5% to 99% of the deceased worker's basic amount;
- A disabled widow or widower aged 50 through 59 will receive 71.5% of the deceased worker's full benefit;
- A widow or widower, any age, caring for a child under age 16 will receive 75% of the deceased worker's full benefit.

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TAXATION OF SOCIAL SECURITY BENEFITS (as of 2016)²

SINGLE TAX FILER

| Provisional income | Portion of benefit subject to tax |
|----------------------|-----------------------------------|
| Under \$25,000 | 0% |
| \$25,000 to \$34,000 | Up to 50% |
| More than \$34,000 | Up to 85% |

MARRIED TAX FILERS

| Provisional income | Portion of benefit subject to tax |
|----------------------|-----------------------------------|
| Under \$32,000 | 0% |
| \$32,000 to \$44,000 | Up to 50% |
| More than \$44,000 | Up to 85% |

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¹All figures regarding survivor benefits are provided by the Social Security Administration and are current as of 2015.

²Social Security Administration

Benefits paid to a surviving divorced spouse who meets the age or disability requirements listed above as a widow or widower won't affect benefits for other survivors impacted by the worker's record. If the divorced spouse remarries after reaching age 60 (or after age 50 if disabled), the remarriage will not affect eligibility for survivor benefits.

In addition, a child under age 18 (19 if still in school) or disabled will receive 75% of the deceased worker's full benefit.

Does my Social Security benefit stay the same throughout retirement?

No. In most years, Social Security benefits are adjusted based on increases in the cost of living, as measured by the Consumer Price Index. It can be meaningful, because the projected cost-of-living adjustment over the next ten years, according to the Social Security Administration, is 2.8 percent per year. If that's the case, your Social Security benefit would increase by about 30 percent in just ten years.

Can I collect Social Security if I am covered under another government retirement program?

Federal, state and local government employees may be covered by other government pension plans and not by

Social Security. Some or all of your Social Security benefit may be offset. Different rules apply to persons entitled to Social Security benefits before 1978. For more information, contact your union representative or the Social Security Administration. Generally, there is no reduction of Social Security benefits if you receive military retirement benefits.

Will Social Security fulfill all of my retirement income needs?

Social Security is intended as a supplement to a retiree's savings. It was not designed to provide a retiree's entire income. Most people should plan on having other sources of retirement income such as pensions, savings and investments. A comprehensive retirement plan can help you determine the percent of your income needs that are potentially met by Social Security.

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